

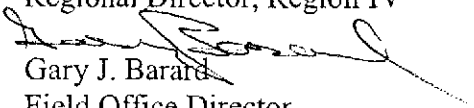


Homeland Security

August 13, 2004

MEMORANDUM

TO: Kenneth O. Burris, Jr.
Regional Director, Region IV

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: North Carolina Division of Parks and Recreation
FEMA Disaster 1134-DR-NC
Audit Report No. DA-33-04

The Office of Inspector General (OIG) audited public assistance funds awarded to the North Carolina Division of Parks and Recreation. The objective of the audit was to determine whether the Division of Parks and Recreation accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

Parks and Recreation received an award of \$10,354,457 from the North Carolina Division of Emergency Management, a FEMA grantee, to remove debris, provide emergency protective measures, and repair facilities damaged as a result of Hurricane Fran in September 1996. The award provided 90 percent FEMA funding for 117 small projects and 15 large projects¹. The audit was limited to the \$9,589,860 awarded and claimed under the large projects (see Exhibit A).

The audit covered the period September 1996 to July 2002. During this period, Parks and Recreation received \$8,630,874 of FEMA funds under the 15 large projects.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of Parks and Recreation's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

¹ According to FEMA regulations, a large project costs \$44,800 or more and a small project costs less than \$44,800.

RESULTS OF AUDIT

Parks and Recreation did not have procedures to record expenditures on a project-by-project basis and effectively administer contracts. In addition, its claim included questioned costs of \$7,313,956 (FEMA share \$6,582,560) resulting from unsupported cost, unauthorized work, pre-existing damages, and mathematical errors.

- A. Poor Grant Accounting and Unsupported Costs. Contrary to federal regulation [44 CFR 206.205(b)], applicable to large projects, Parks and Recreation did not account for grant expenditures on a project-by-project basis. Consequently, costs claimed under FEMA projects were not supported by Parks and Recreation's accounting system.

Organizationally, Parks and Recreation is part of the North Carolina Department of Environment and Natural Resources (DENR). The DENR was responsible for accounting for project expenditures and maintaining contract and other records in support of costs claimed. However, the DENR's practices and procedures did not provide for the accounting of expenditures on a project by project basis. Instead, the DENR accounted for expenditures by contract.

To facilitate a review of Parks and Recreation's claim by project, the OIG analyzed the contracts, invoices, and payment records and reconstructed contract payments for each FEMA project. However, no payment records were available for the \$108,972 claimed under Project 91337. Therefore, for this reason, and conditions noted in Finding C, the OIG questions these charges.

- B. Contract Management Deficiencies and Payments for Unauthorized Work. Federal regulation in 44 CFR 13.36 (b) requires recipients of FEMA grant funds to implement a contract management system that ensures proper administration of its contracts. However, Parks and Recreation failed to properly administer eight fixed price contracts for debris removal and a contract awarded to manage debris removal operations. As a result, Parks and Recreation made excessive payments of \$3,857,996 to contractors and claimed such cost under FEMA Project 25762.

The DENR, on behalf of Parks and Recreation, awarded eight fixed price contracts, totaling \$1,212,913, for debris removal activities. This included removing debris from the park roads, walking trails, and picnic areas. Part IV of the contracts stated that:

“... in consideration for performing all the requirements hereunder, DENR shall pay the offeror [per the attached cost proposal(s)] for the services as described herein, said sum to be full and complete compensation for the offeror's services required herein.”

Parks and Recreation was responsible for contract administration, but processed the contractors' invoices for payment as though the contracts were cost reimbursement, rather than fixed price. All invoices submitted for payment by the contractors were paid without regard to the

\$1,212,913 fixed ceiling price for the eight contracts. This resulted in contract payments of \$4,867,994, or \$3,655,081 in excess of the fixed amount of \$1,212,913.

Further, the OIG found that the excess payments were made in whole, or in part, for work FEMA had not authorized. For example, the FEMA approved scope of work provided for the removal of debris from park roads, trails and picnic areas, and 15 feet beyond such facilities. However, at Falls Lake and Morrow Mountain Parks, the contractor removed debris 40 feet on each side of the roads, 30 feet on each side of the trails, and 30 feet around picnic areas. (See Exhibit B for other unauthorized activities.)

Parks and Recreation also made excessive payments to a ninth contractor retained to manage the debris removal operation at the eight state parks. The contract stated that the contractor would be paid a sum of 6.87 percent of the total debris removal cost not to exceed \$132,440. However, Parks and Recreation approved \$335,355 in payments to the contractor, an amount equivalent to 6.89 percent of debris removal costs, or \$202,915 more than authorized under the contract.

- C. Pre-Disaster Damage. To be eligible for FEMA funding, federal regulation states that an item of work must be required as the result of the major disaster event (44 CFR 206.223). However, Parks and Recreation's claim included \$3,396,228 for repairing damage that existed prior to the disaster to shorelines and boat ramps. Accordingly, the OIG questions these charges.

Specifically, under Project 77636, Parks and Recreation claimed \$3,287,256 for repairs to shorelines at Kerr Lake. This consisted of placing sand and rocks at seven points along the shoreline (Hibernia, Nuttbush, County Line, Henderson Point, Kimball, Bullocksville, and Satterwhite). However, Parks and Recreation requested, but was denied funding for the same repair work in its November 1995 state budget submission. In March 1996, Parks and Recreation again requested and was denied financial assistance to repair the Kerr Lake shoreline—this time from FEMA in the form of a Hazard Mitigation grant. These requests were denied because of a lack of state funds and higher priority grant proposals, respectively.

A similar condition existed under Project 91337. In this case, the Division claimed \$108,972 for repairing boat ramps at Kerr Lake with concrete and "rip rap". However, documentation again showed that these needs existed prior to the disaster in that funding for repair work was also requested in the Division's March 1996 Hazard Mitigation grant request to FEMA. This request was denied.

- D. Mathematical Errors. FEMA awarded Parks and Recreation \$3,927,273 of supplemental funding to cover a cost overrun under the eight debris removal projects and the one debris management project. However, due to several errors, the award was \$59,732 in excess of actual needs.

A Technical Assistance Contractor (TAC), hired by FEMA to perform a final inspection of the debris removal projects, determined that Parks and Recreation had incurred a \$3,927,273 cost overrun under the eight debris removal projects. The TAC calculated the cost overrun by

deducting, in error, \$1,300,064 in FEMA approved funding from Parks and Recreation's reported costs of \$5,227,337. However, the FEMA approved funding was \$1,359,796. This resulted in \$59,732 of supplemental funding, under Project 25762, in excess of needs.

RECOMMENDATIONS

The OIG recommends that the Regional Director, in coordination with the grantee:

1. Require the Department of Environment and Natural Resources, for future FEMA disaster declarations, to establish procedures to account for grant expenditures on a project by project basis;
2. Require the Department of Environment and Natural Resources to implement an effective contract management system that will ensure that future FEMA funded contracts are administered in a manner consistent with the contract terms and federal requirements; and
3. Disallow the \$7,313,956 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with FEMA, grantee, DENR, and Parks and Recreation officials on April 19, 2004. Parks and Recreation officials concurred with Finding A, but withheld comment on Findings B through D pending their analysis and verification of the facts.

Please advise the Atlanta Field Office-Audit Division by November 22, 2004, of the actions taken to implement the recommendation. Should you have any questions concerning this report, please contact George Peoples or me at (770) 220-5242.

North Carolina Division of Parks and Recreation
FEMA Disaster Number 1134-NC
Schedule of Claimed and Questioned Cost

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
25762	\$4,050,168	\$4,050,168	\$3,917,728
77636	3,287,256	3,287,256	3,287,256
90716	377,402	377,402	
64347	267,824	267,824	
64335	205,314	205,314	
01519	241,004	241,004	
64343	231,575	231,575	
76789	167,005	167,005	
64352	170,206	170,206	
64350	149,806	149,806	
76790	121,152	121,152	
91337	108,972	108,972	108,972
64334	78,117	78,117	
64353	67,239	67,239	
64351	66,820	66,820	
Totals	<u>\$9,589,860</u>	<u>\$9,589,860</u>	<u>\$7,313,956</u>

North Carolina Division of Parks and Recreation
FEMA Disaster Number 1134-NC
Summary of Unauthorized Debris Removal Work

<u>Name of Park</u>	<u>Description of Unauthorized Work Performed</u>
Cliffs of the Neuse	Debris was removed up to 30 feet on each side of the roads, trails, and around the picnic areas. Also, debris was removed from “informal walking paths” made in the wood by campers, and deep inside of the park’s wooded areas.
Raven Rock	Debris was removed up to 30 feet on each side of the roads, trails, and around the picnic areas, and deep inside of the park’s wooded areas.
Kerr Lake	Debris was removed up to 30 feet on each side of the roads, trails, and around the picnic areas, and deep inside of the park’s wooded areas.
Falls Lake	Debris was removed from the entire wooded perimeter of the park as a fire control measure. This work was not authorized under the project.
Jordan Lake	Debris was removed from the entire wooded perimeter of the park as a fire control measure. This work was not authorized under the project.
Umstead	Debris was removed from creeks and streams running through the park. This work was not authorized under the project.